"Business Issues"
27 March 1992

Consumer Assessment:

1. Are there potential consumers who need/want this product? Who are they? Under what circumstances would they use the product? What are its benefits & liabilities to the consumer?

2. What would a consumer be willing to pay for this product - initially and in continuing costs?

3. What shape, size and functionality would appeal to various demographic segments?

4. How should the product be packaged and presented to the consumer?

Market Strategies/Assessment:

1. What is the potential global market - initially and longer term?

2. Which are the key countries & demographic groups for product introductions on a global basis?

3. What (how large) are the barriers to a PM introduction of this product? If an acceptable PM product can be developed, how and when should it be introduced to best compliment the sales of our current products? To what conditions/events should the introduction respond?

4. Gum, patches and perhaps inhalation devices that deliver nicotine for therapeutic purposes may affect the future of this product. What are the implications of this?

5. What are the barriers to entry into this product area by non-tobacco companies? Can we expect them to introduce similar (smoking) products?

6. What pricing strategies would be used for (a) flavor inserts, (b) a customer's initial control package and (c) replacement control packages, batteries and heaters?

7. What strategies would allow controlled evolution of successive product generations in response to competitor's introductions? What kind and degree of technical evolution is needed to accomplish those strategies? How (and with what partners) can this best be accomplished?

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Distribution:

1. What sort of outlets would offer these products for sale? Could/would they be distributed through our normal channels?

2. The heater assembly and batteries might require replacement every three months. Environmental concerns and legislation will probably require that the Ni/Cd batteries be recycled. Would the customer (a) purchase and install replacement items, or (b) trade in his/her old control assembly for a new or reconditioned one? How would distribution and recycling of these items be handled? By whom?

3. In the longer-term, do we want to retain exclusive rights to the manufacture and sale of the control package, or would we allow (want) it to become available through non-PM distribution channels?

Manufacturing of the "Flavor Insert:"

1. What cost structure is anticipated - initially and longer term?

2. Should the flavor insert be manufactured by PM or by an external contractor?

3. In designing the manufacturing process, what provisions should be made to facilitate responses to possible regulatory requirements?

4. What is the proper balance between initial expenditures for automation and the resulting reductions in manpower costs?

Manufacturing of the Control Package, Battery Pack and Charger:

1. Who would provide the control package, battery pack and charger - PM or a "partner company?"

2. If we use a partner company, how and when should it be selected? To what degree would it participate in product design? What development and supply agreements are anticipated?

3. What cost structures are anticipated?

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Government & Regulatory:

1. What tax bases would apply to this product?

2. Would this product be classed as a cigarette (in the USA, Europe, Japan?) In the US, would it be subject to Food and Drug Administration or Bureau of Alcohol, Tobacco and Firearms approval?

3. If subject to FDA regulation, how would this product be classified? (As a food, a drug, or a cosmetic?) What definition of purpose or need would be necessary? Would each brand extension require a new FDA approval? Testing and approval by the FDA often takes five years or longer. Would we wish to take a pro-active role in seeking approval?

4. What approvals would be required internationally?

5. Would the Consumer Product Safety Commission become involved? What failure modes and/or consumer mis-uses might be possible?

6. What Federal Communications Commission approvals may be required for the electronics package?

7. Would shipments containing new or used Ni/Cd batteries be subject to any transportation restrictions?

8. What are the requirements for Underwriters Laboratories approval of this kind of product?

9. What environmental impact problems might be associated with the manufacture and/or disposal of this product or its components?

Legal:

1. What liability issues might be associated with this product?

2. What patent licenses may be required to produce this product?

Testing:

1. What evaluation of product reliability is needed? Should this be done by an outside testing agency? What would be the time and materials requirements?

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2. PM internal testing is projected to require at least one year and 500,000 flavor inserts. When should PM testing begin and how complex should the protocol be?

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